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Industrial Distribution

THE MANAGEMENT & SALES MAGAZINE FOR DISTRIBUTORS

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Reagan keynotes STAFDA

Construction's boom and gloom

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Trust builds powerful partnership

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Jim and Slim score with Cable TV

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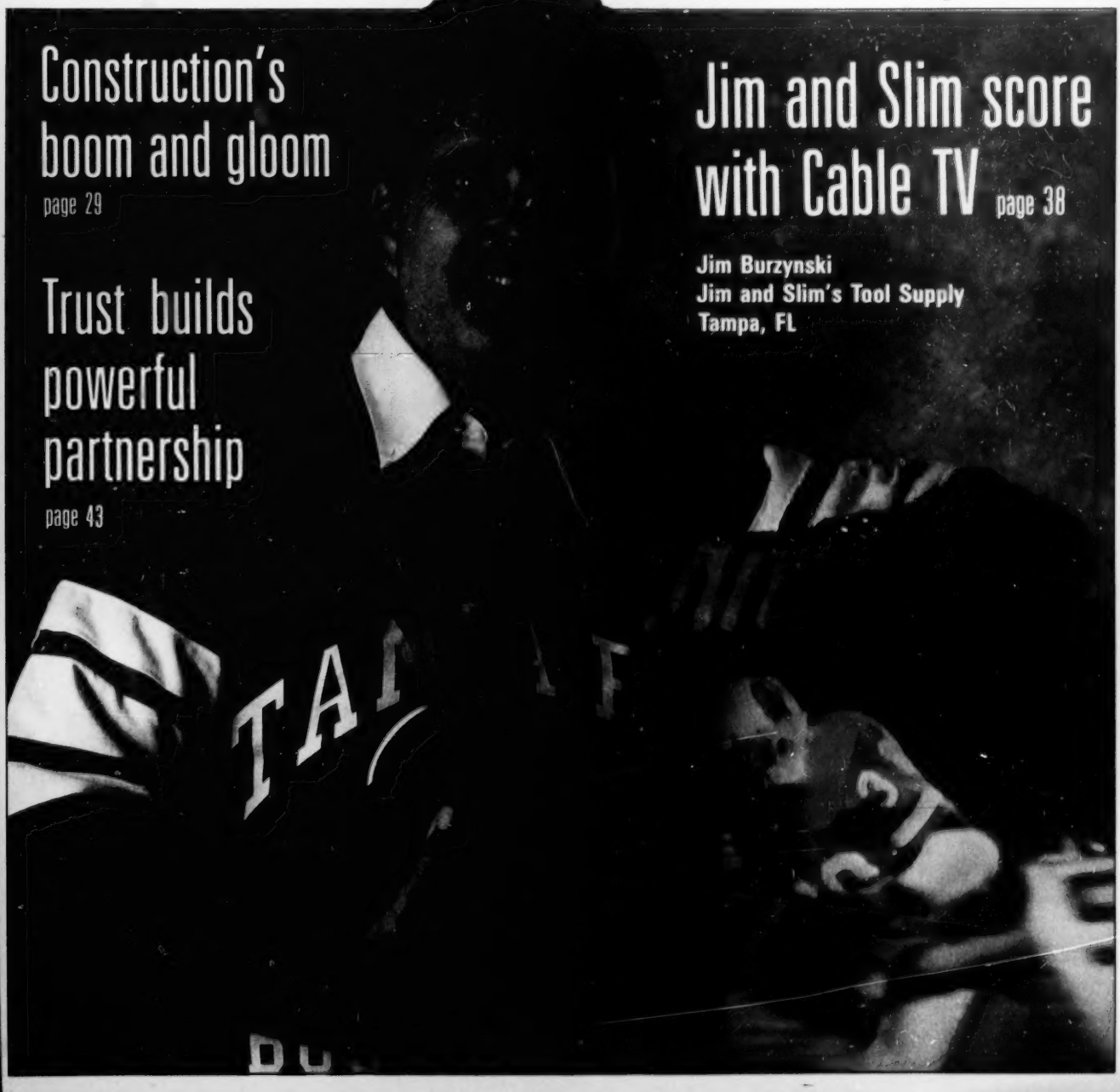
Jim Burzynski
Jim and Slim's Tool Supply
Tampa, FL



Industrial Distribution®

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 79, NO. 10 OCTOBER 1990 A CAHNERS PUBLICATION

Jim Burzynski uses cable TV as a key marketing tool.

Cover photography by John Petrey

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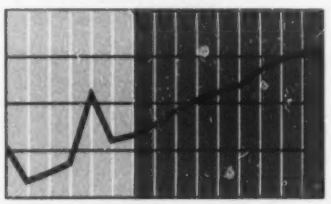

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CONSTRUCTION MARKET

Boom and Gloom

It's been the best of times and the worst of times for construction distributors. And now as STAFDA members head toward their annual convention, the specter of a national recession continues to linger.

By Jack Keough, Editor-in-Chief, and Doug Harper, Contributing Editor

If you were to use one word to describe the construction market in 1990, that word would be disparity. In some parts of the country, particularly in the West and Northwest, business is strong. But in the Northeast, the construction industry is hurting badly.

Let's take a look at what happened this year. January was an exceptionally strong month for home building and February was the best month ever for non-residential construction after adjusting for inflation and seasonal trends.

All signs indicated an excellent year for construction. But then the economy began unraveling as housing starts plummeted. Builders couldn't obtain construction financing due to lending restrictions and demand slackened as a sluggish economy increased customer caution.

The simple fact is that it's been a strange year for manufacturers and distributors serving the construction market.

FLUCTUATING SALES

Robert E. Cannon, vice president/sales with Channellock, points out that tool sales have fluctuated wildly in the past year. "One month would be good and the next month would be soft and it just didn't seem to make any sense," he says.

Robert Brady, vice president of sales and marketing for American Tool Companies, agrees. "Everything is just so spotty around the country," he says. "There's no pattern to incoming orders. You'll have a good week, then a bad week and then orders come back up again. There's always going to be some areas of the country that are off a bit—5% or so—but this year those areas are down a lot further."

Brady specifically pointed to the Northeast as an example. The once booming region is suffering through a recession. In fact, the northeast's construction market hasn't been this weak since the 1982 recession. (See box)

Another area that has suffered sharp construction reversals is the District of Columbia. Victor Siegel, president of W.S. Jenks & Son, says that despite the massive expansion of the federal government in recent years, the construction industry is doing "terrible."

Siegel, whose company sells tools and machinery to contractors in the Washington, D.C., Maryland, West Virginia, and Delaware area says that many of the construction industry's problems are the result of deregulation of savings and loan institutions. "Financing for new development projects has become much harder to obtain since the savings and loan scandals," he says.

Regionally, distributors can take solace from the fact that there are still bright spots in certain sections of the country. Those hot spots include Seattle, Portland, Las Vegas and some inland areas of California.

"We've had three strong years here in the construction market," says Steve Van Meetren, owner of Addison Inc., a distributor headquartered in Las Vegas. "About 3,000 people move into our area per month, and they obviously need someplace to live. Land prices here are still pretty cheap. You can buy a house anywhere from $80,000 to $100,000."

Those people are drawn to Las Vegas because of the new hotels and casinos. "Some of these hotels need thousands of workers. So our economy is very good and it's fairly easy for people to find a job," he says.

Van Meetren is quick to point out that although sales are up, competition is becoming fierce, putting pressure on margins. "We used to have two hardware stores here. Now we have five. Other companies are also moving in from out of state."

Van Meetren also says that his branches serving Phoenix, AZ and Albuquerque, N. Mex. are seeing increased sales as those cities rebound after a downturn in the economy.

The Midwest is also seeing a strong growth in housing starts. At the current pace, Midwest starts should total just under 300,000 units, the highest level of new residential construction this region has seen since 1979.

Byron Zawaski, vice president of Arrow Equipment, a two-branch distributor headquartered in Chicago, says that the construction business in the windy city is "pretty good."

"We've been reading about the economy going bad but so far we haven't experienced it," he says. He

adds, however, that his competitors are among those claiming hard times. Despite this, Zawaski says that companies are still building high rise office buildings and industrial plants.

In Charleston, S.C., Associated Industrial Supplies projects a 15 to 20% sales growth. "We've had a very good year," says Fred Rast, senior vice president of the distributorship and general manager of the Charleston branch.

Rast points out his company is involved in commercial building expansion and roadwork. "We, of course, received a boost in business from Hurricane Hugo but even excluding that, the market has been very good for more than a year," he says.

In Denver, Colo., Mark F. Salvato, vice president with Western Fasteners Inc., an eight branch distributor, characterizes the Colorado construction industry as one of "measured improvement."

He says there has been significant growth in the construction of new facilities for high tech companies. "We feel fairly confident that now we have something that we can live with and move on from where we are," he adds.

ANOTHER OUTLOOK

On the non-residential side, business nationwide is also showing a disparity. Many areas of the country are discovering a surplus of commercial space. Even cities like New York, where office building occupancy rates routinely run at 98% are experiencing trouble renting new buildings.

Michael L. Convey, senior vice president/sales with Black & Decker notes that non-residential construction, one of the company's mainstays, will be a challenge over the next year.

But like his colleagues at other tool companies, he stresses "that it all depends on geography. If you go to the Northeast, construction is in some trouble. On the other hand we see rejuvenation in the Southwest, and the Midwest is strong. The West Coast has been strong and we see that continuing."

Nationwide, Cahners Economics forecasts non-residential building markets to be weaker than residential markets. Total commercial, industrial and institutional spending should total $134.1 billion, 3.6% above the 1989 levels. Gains should average about 6.5% annually over the next two years.

The office sector is by far the weakest among the building types in the non-residential market. Through April, the value of office building construction slipped more than 10% behind last year. The weakest sector during 1989, the group that includes retail buildings, shopping malls and service establishments has recently shown signs of bouncing back, although slowly.

Spending on new office building construction should fall by 6.7% this year. Don Kanz, president of Southern Staple Supply in Dallas, says that commercial construction is "flat to dead" in his city. While he reports that some office towers completed years ago still remain totally empty in the "Big 'D'."

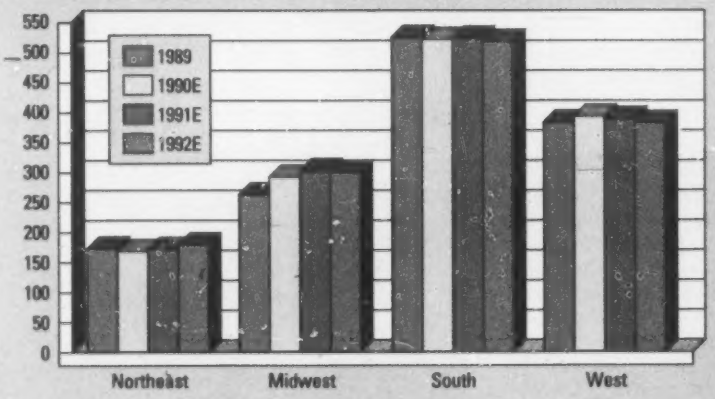
Likewise, Robert A. Wesche, president of the Wesche Company in Tulsa, Okla., says that after a flurry of construction the past several years, Tulsa has a surplus of office and hotel space which has depressed the construction industry.

Home remodeling is helping to fill some of the listless construction market. Jerry Ryder, vice president of marketing for the Skil Corp. points out that alterations and repairs are continuing strong, and that translates into strong use of quality, industrial power tools.

Through the first quarter of 1990, remodeling permits ran about 7% higher than last year's rate. Cahners forecasts remodeling at about 8% this year and 5.3% next year.

REGIONAL HOUSING STARTS

(Thousands of Units)



Source: U.S. Commerce Dept.; Forecast: Cahners Economics

CONSTRUCTION SPENDING

(Billions of Current $)

	Actual	Forecast			Annual % Change			
	1989	1990	1991	1992	'89/'88	'90/'89	'91/'90	'92/'91
Total	358.7	373.8	397.2	417.8	+1.8	+4.8	+6.3	+5.2
Res.	137.8	145.9	156.5	164.2	-0.8	+5.8	+7.3	+5.0
Nonres.	129.4	134.1	143.2	152.3	+3.9	+3.6	+6.8	+6.3
Nonbldg.	89.5	93.9	97.5	103.1	+2.9	+4.9	+3.8	+4.0

Construction figures exclude improvements to existing buildings.

Source: U.S. Commerce Department; Forecast: Cahners Economics

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Boom and Gloom

Reconstruction markets vary widely from one area of the country to another. Of the 50 largest metropolitan markets for reconstruction work, Los Angeles, Baltimore and Philadelphia appear to be the strongest markets, each showing double-digit growth in permits issued for additions, alterations, and conversions.

Following slow growth in 1990, non-residential reconstruction work will grow at a more rapid rate in 1991 and 1992. 7.4% gain in 1991 followed by a 5.5% increase in 1992 is forecasted.

So while there are some bright signs ahead, the immediate prospects for construction distributors are poor. Here's why: New home construction of fell for the sixth consecutive month in July, cutting building activity to its weakest point in nearly 8 years.

Not since June-November1981 has home construction fallen for six consecutive months, according to Department of Commerce officials.

Even in such strong building areas as San Diego, CA, business is down. Keith Mantis, president of San Diego Fasteners, says that residential construction in his area has slowed considerably as a result of voter initiatives to limit growth.

But, he says, San Diego still has a "boom" mentality. "It may not be L.A. but neither is it St. Louis so when construction is off here, it's still better than most parts of the country," he adds.

Despite the gloomy outlook, distributors are optimistic.

"I think that in the spring of 1991 you'll see the construction industry start to turn around," says Larry Keith, president of Modesto Contractor Supply in Salida, CA. "Usually in this business, when you have a slowdown, it has the tendency to winnow out the marginal operators and business usually comes back stronger." Many distributors are hoping that Keith's predictions will prove correct. □

View from the Northeast

The Northeast's stagnant economy and an overbuilt, overpriced housing market is taking its toll. Through the first four months of 1990, the value of building permits for new residential construction dropped 30% in New England alone.

At 169,000 housing units, total housing starts in the Northeast this year will be 42% below the electrifying building pace of four years ago.

And commercial construction is doing no better. Jerry Penn, president of Boston Cartridge Tool Co., in Newton, MA estimates that commercial construction is off 35 to 40% over recent years.

"The vacancy rate is so high that many developers are going out of business," he says. On the plus side, Penn notes that Massachusetts just increased its gasoline tax by six cents a gallon, money which is earmarked for highway renovation. "If all goes well this will bring our area a fair amount of business," he points out.

Arthur A. Kaufman, vice president/purchasing for the Massachusetts-based Kaufman Co., also is optimistic. "For years we rested on our laurels because business was so good, but their business is still there. Tools are still wearing out and breaking and someone has to supply them," he says.

In New York City, there is a sense that the construction party is over. Kass Industrial Supply, located in the Bronx, is one of the region's major construction distributors serving areas as far distant as Atlantic City, Philadelphia and Connecticut. Alan Kass, the firm's vice president, notes that Donald Trump's recent financial troubles marked the end of the Atlantic City casino building boom.

In New York City proper, Kass claims that the construction industry never fully recovered from the stock market's plunge on "Black Monday" in October 1987. "In my opinion, we are not 'maybe' in a recession, we are definitely in a heavy recession," Kass says.

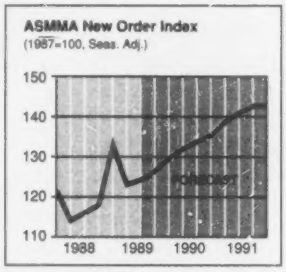
BUSINESS REPORT

BY PAUL WATERS

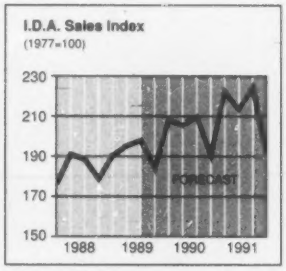
Production levels rising

Fourth Q output should be higher than year ago levels.

Output in manufacturing was flat in 1989, but has finally shown some signs of coming back to life. Boosted by strong exports and higher activity in materials and components, output is expected to be 1.6% above year-ago numbers in the third quarter. Fourth quarter production should log in 3.4% above levels in the fourth quarter 1989. Although growth for the year will total 1.6%, 1991 will see manufacturing output jump 5.4%. OEM production, while flat this year, will surge 6.3% on the strength of fabricated metals and non-electrical machinery (machine tools and computers). Barring a severe supply shock from events in the Middle East, these improvements will come despite the many negative comments about the economy trumpeted in the mass media.



Data source: ASMMA
Forecast source: Cahners Economics



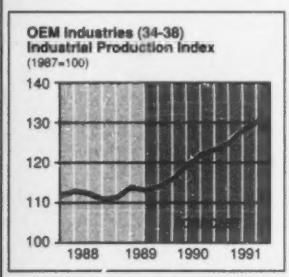
Data source: I.D.A.
Forecast source: Cahners Economics

Durable goods industrial production has been sluggish for over a year, with the slowdown falling in primary metals and automobiles. Although this sector's output will inch up 1.1% this year, look for a 5.6% surge in production during 1991.

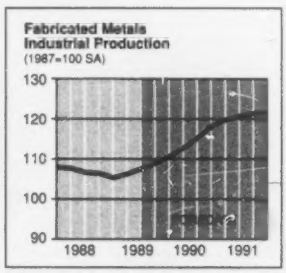
Inventories have stayed at a manageable level throughout the durable goods slump. The manufacturing sector's inventory to shipments ratio has actually fallen since the beginning of the year, with recent numbers holding at about 1.5. So at current shipment levels, inventories would last for 1.5 months. As the economy gains momentum at the end of the year, look for this number to rise above 1.6. Firms will increase depleted stocks to meet higher demand in 1991.

The OEM industries will experience the slowest growth of the durable goods sectors this year, inching up less than 1%. As interest rates start to slip, however, capital spending will pick up and the OEM sector will take off. Look for production to surge 6.3% next year.

Non-electrical machinery will be the best performing OEM sector this year. With strong computer production and machine tool shipments, output in this sector will rise 4.5%. Next year will see production surge 9.7% as businesses increase investment in equipment. Fabricated metals will be flat this year, but will surge 6.7% in 1991 and 5.7% in 1992. □



Data source: Federal Reserve Board
Forecast source: Cahners Economics



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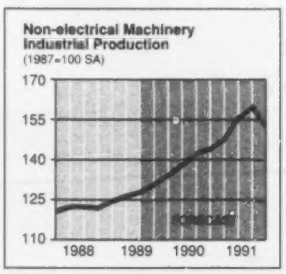

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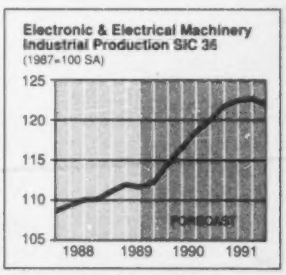


Data source: Federal Reserve Board
Forecast source: Cahners Economics

(1977=100)	SALES July 1990	July 1990	July '90 vs July '89 % change	RECEIVABLES July 1990 days	INVENTORY June 1990 % change
TOTAL	212.8	175.5	21.3	52.7	-0.8
EAST	178.0	161.7	10.1	49.7	-1.4
SOUTH	331.0	253.5	30.6	65.4	-0.3
CENTRAL	165.8	142.0	16.8	43.7	-0.6
WEST	214.0	196.5	8.9	36.0	0.3

SOURCE: Industrial Distribution Assn.

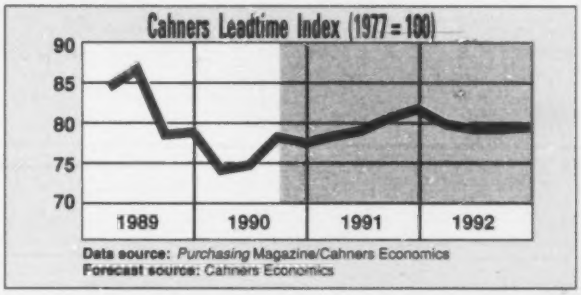
SUPPLY OUTLOOK

BY PAUL WATERS

Manufacturing avoids recession

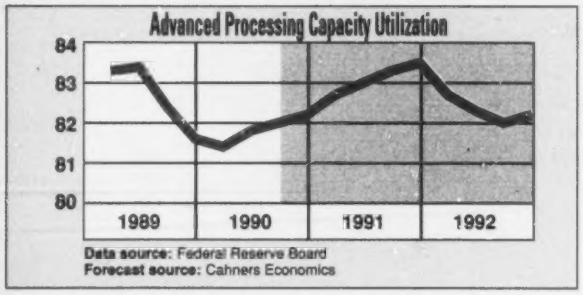
Economic growth will be slow, but steady.

Supply conditions continue to favor buyers at this stage in the business cycle. The economy is presently in its slowest growth period, with firms and consumers regrouping for the coming expansion. While it may seem optimistic to call for expansion after the recent turbulence in oil markets, a close look at the economy shows why a recession is unlikely to arrive.

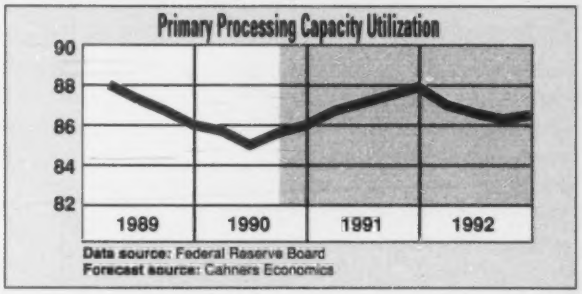


Leadtimes are a reliable indicator of supply pressures in the economy. Just before the oil shocks of 1973 and 1979, leadtimes were already uncomfortably long. Manufacturers were operating near maximum practical capacity, so suppliers could not get enough goods to the shelves to meet demand. Over-ordering was common practice and inventories swelled. When oil prices soared, strong demand made it easy for manufacturers and distributors to pass on costs, boosting inflation. In contrast, leadtimes now stand nearly 23% below their levels in 1977, reflecting how easy industrial materials can be sourced. Extremely careful inventory control has helped keep inventories in line with demand, reducing the need for over-ordering. Demand is weaker than during the previous oil shocks, so expect leadtimes to stay short; Cahners Leadtime Index of 125 Industrial Materials will be down 7.2% this year and will manage a 5.0% gain during next year's rebound.

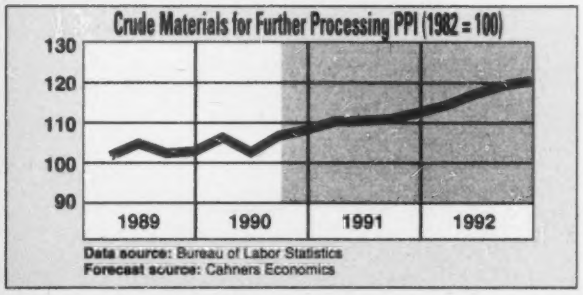
Although capacity utilization is above its long-term average, it is still below its levels during 1973 and 1979. Capacity utilization for advanced processing industries (more than two-thirds of all manufacturing) reached 83.4% in early 1989 and has since declined steadily. Faced with room for production increases and slack demand, manufacturers are not able to pass on higher costs easily. This translates into more muted inflation hikes, even considering oil price jumps. □



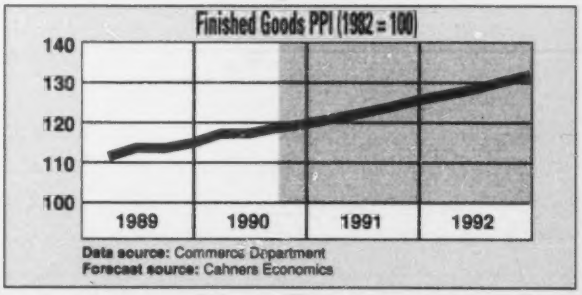
Operating rates for advanced processing industries (machinery, etc.) suggest there is room for output increases.



Capacity utilization for primary processing industries (fabricated metals, chemicals, etc.) will pick up in 1991.



The producer price index for crude materials will stop its recent slide, boosted by skyrocketing petroleum prices.



Finished goods producer prices should not take off, since slack demand will prevent firms from passing on higher costs.